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CONSULTANCY

## IMPACT OF ESG PERFORMANCE ON FIRM VALUE AND PROFITABILITY IN SOUTHEAST ASIA COMPANIES



A research by

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# Introduction to ESG

**E**nvironmen

t

Considers how a company performs as a steward of nature. Example: climate change, energy emission, waste management and resource depletion.

**S**ocia

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Examines how a company manages its relationships with employees, suppliers, customers and the community. Example: health and wellbeing, building safety, employee relations diversity and impact on communities.

**G**overnanc

e

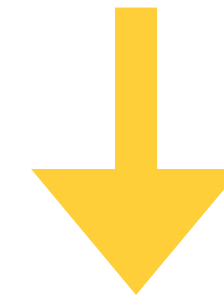
Deals with how a company is governed. Example: executive pay, shareholder rights, board diversity, and structure audits.

	ESG Reporting (listed companies)	Sustainable Fund Regulation	Taxonomy	Stewardship Code
Indonesia	Required for listed companies	N/A	The Indonesia Green Taxonomy was launched in 2022	N/A
Malaysia	Required for listed companies since 2016	Updated guidelines on sustainable funds were published in 2023	Sustainable & Responsible Investment Taxonomy released in 2022	Malaysian Code for Institutional Investors introduced in 2014
Singapore	ESG reporting on a “comply or explain” basis since 2017, with climate reporting being phased in	New reporting guidelines for retail funds came into effect in 2023	Singapore-Asia taxonomy is in the final consultation phase	Singapore Stewardship Principles for Responsible Investors introduced in 2016
Thailand	ESG reporting on a “comply or explain” basis since 2017	80% of a fund’s assets must be consistent with its name	Thailand’s Green Taxonomy was launched in 2023	The SEC introduced the Investment Governance Code for Institutional Investors in 2017
Vietnam	Required for listed companies	N/A	A green bond taxonomy is reportedly under development	N/A

Source: UNDP, 2024

**2022** Nine out of 10 member states of the Association of Southeast Asian Nations (ASEAN) at COP26 pledging to achieve net-zero targets by 2050

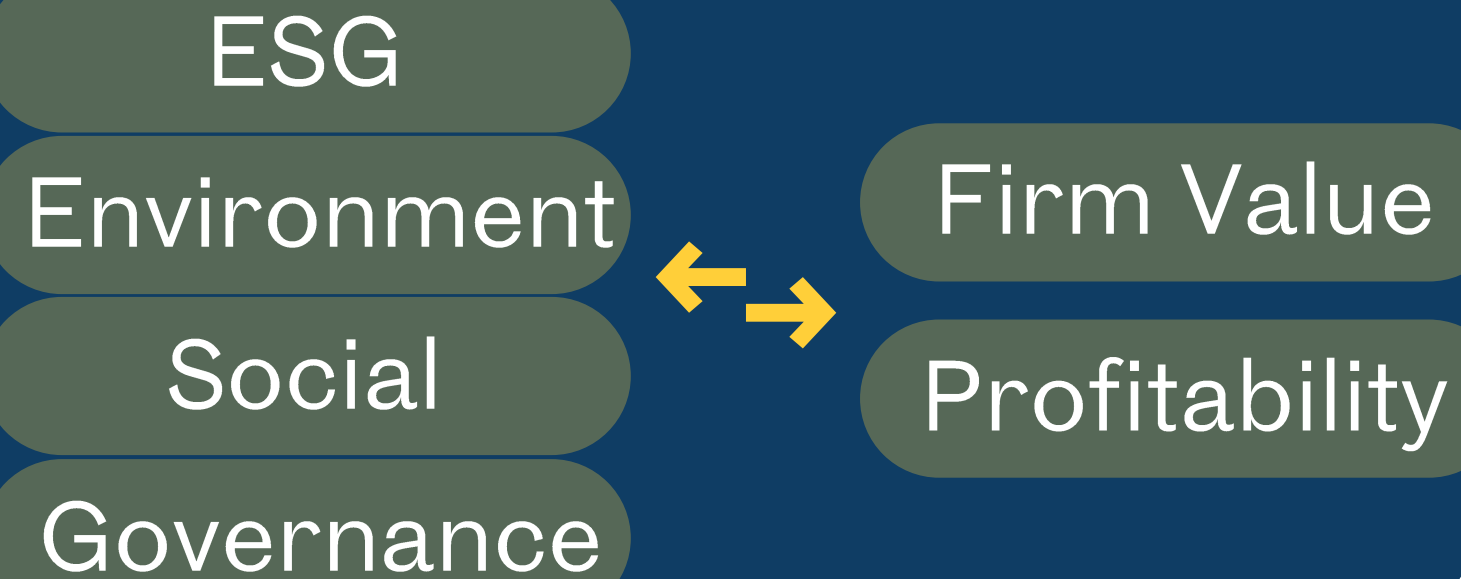
**2023** IFRS announces new ESG reporting standards



**IMPACT OF ESG PERFORMANCE  
ON FIRM VALUE AND PROFITABILITY IN  
SOUTHEAST ASIA COMPANIES**

# Research

## Objectives



- To evaluate the relationship between overall ESG performance and firm value.
- To analyze the impact of individual ESG pillars on firm profitability.
- To understand the role of firm size and leverage in moderating the relationship between ESG performance and financial outcomes.

# Research Methodology & Data

Number of companies	252
Period of study	2021 - 2023
Number of observations	747
Market Cap	> 1 billion USD
Source	Refinitiv Eikon

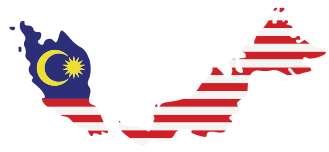
# Research Methodology & Data



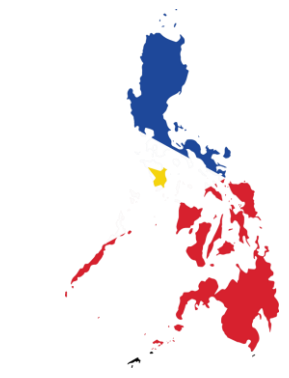
Viet Nam  
**8**



Singapore  
**62**



Malaysia  
**54**



Philippines  
**25**



Cambodia  
**1**



Thailand  
**64**



Indonesia  
**38**

**Total 252**

**Companies**



# Research

## Methodology & Data

$$\text{Tobin's } Q = \frac{\text{Total Market Value of Firm}}{\text{Total Book Value of Firm}} = \frac{\text{Market Capitalization} + \text{Total Debt}}{\text{Total Assets}}$$

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

# Key Findings

## Overview

	<i>Tobins_Q</i>	<i>ROA</i>	<i>esgscore</i>	<i>escore</i>	<i>sscore</i>	<i>gscore</i>	<i>size</i>	<i>leverage</i>
<i>Tobins_Q</i>	1							
<i>ROA</i>	0.388246	1						
<i>esgscore</i>	0.014247	-0.05256	1					
<i>escore</i>	0.014454	-0.05175	0.769102	1				
<i>sscore</i>	0.038667	-0.05365	0.866564	0.630356	1			
<i>gscore</i>	-0.04571	-0.0613	0.7077	0.328198	0.427235	1		
<i>size</i>	-0.50156	-0.40759	0.234703	0.235873	0.196896	0.196421	1	
<i>leverage</i>	-0.05498	-0.2612	-0.17347	-0.0909	-0.1347	-0.17158	-0.03012	1

# Key Findings

## Overview

	Dependent Variable: Tobin's Q			
	1	2	3	4
esgscore	0.002669***			
escore		0.002044***		
sscore			0.002228***	
gscore				0.002029
size	0.074653***	0.074601***	0.073927***	0.074712***
leverage	0.237748	0.234886	0.236012	0.239924

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01

### Tobin's Q with Fixed effects

# Key Findings

## Overview

	Dependent Variable: ROA			
	1	2	3	4
esgscore	0.0001537			
escore		0.000118		
sscore			0.000129	
gscore				0.000116
size	0.0043000***	0.004300***	0.004263***	0.004260***
leverage	0.0136900***	0.013540***	0.013610***	0.013680***

\*p<0.1;\*\*p<0.05;\*\*\*p<0.01

### ROA with Fixed effects

# Key Findings

## Overview

Variable	Tobin's Q (Firm value)	ROA (Profitability)
ESG Score	Positive, highly significant ( $p < 0.01$ )	Not significant
Environment Pillar Score	Positive, highly significant ( $p < 0.01$ )	Not significant
Social Pillar Score	Positive, highly significant ( $p < 0.01$ )	Not significant
Governance Pillar Score	Negative, slightly significant ( $p < 0.10$ )	Not significant
Firm Size	Negative, highly significant ( $p < 0.10$ )	Negative, highly significant ( $p < 0.01$ )
Leverage	Not significant	Negative, highly significant ( $p < 0.01$ )

**Market Valuation:** The strong positive impact of overall ESG performance, particularly environmental and social factors, on firm value underscores the importance of integrating sustainability and social responsibility into corporate strategies to enhance market valuation.

**Operational Efficiency:** The lack of a significant relationship between ESG performance and firms' profitability measures suggests that while ESG practices are valued by the market, they do not necessarily translate into immediate financial gains. Companies may need to focus on long-term strategies and operational efficiencies to realize the financial benefits of ESG initiatives.

**Governance Practices:** The negative impact of governance scores on firm profitability indicates a need for firms to re-evaluate and improve their governance practices to better align with market expectations and enhance overall firm value.

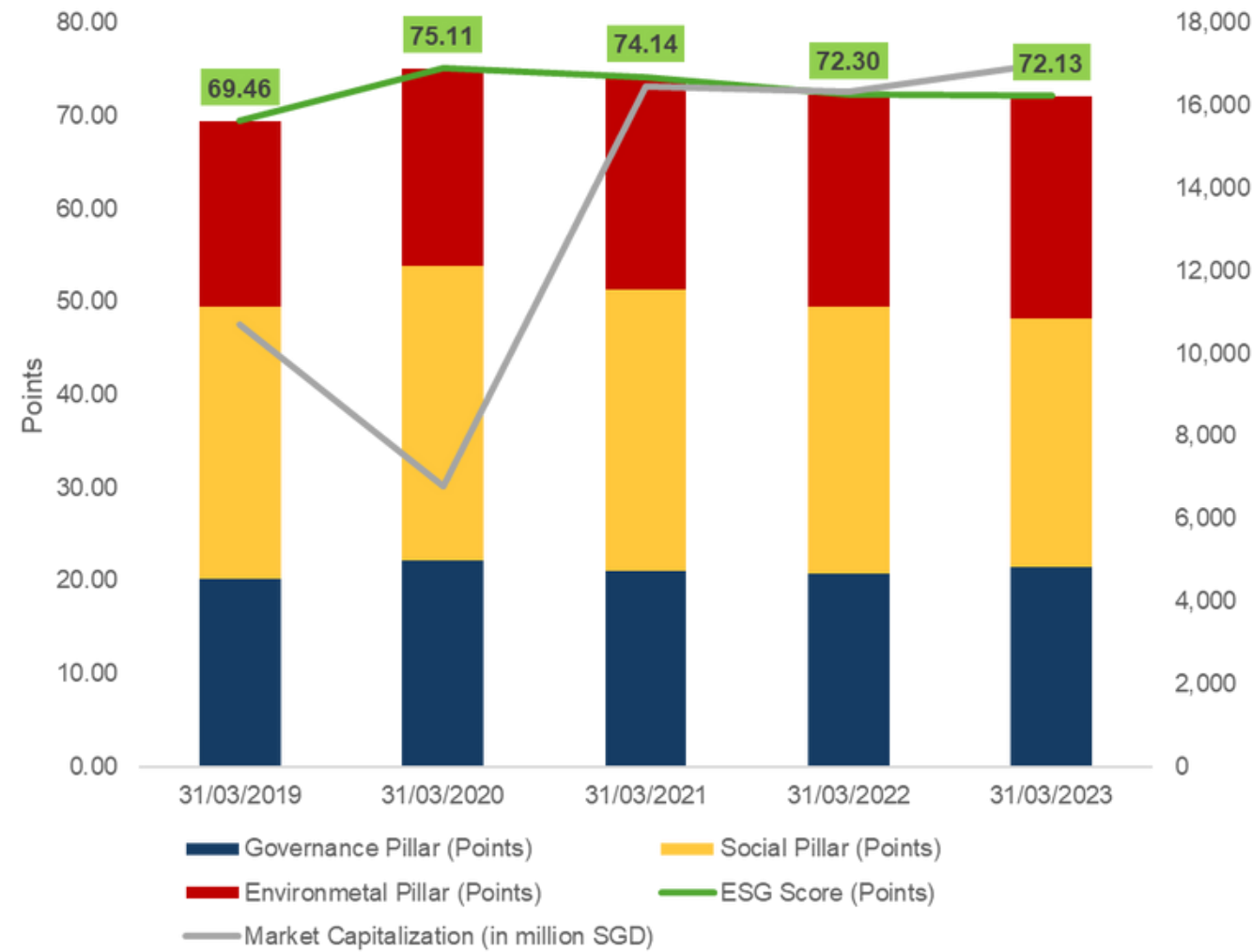
**Firm Size and Efficiency:** The negative relationship between firm size and both firm value and profitability highlights potential inefficiencies in larger firms. Addressing these inefficiencies could improve both market valuation and profitability.

**Leverage:** The non-significant impact of leverage on both firm value and profitability suggests that debt levels do not play a crucial role in determining financial outcomes in the context of ESG performance.

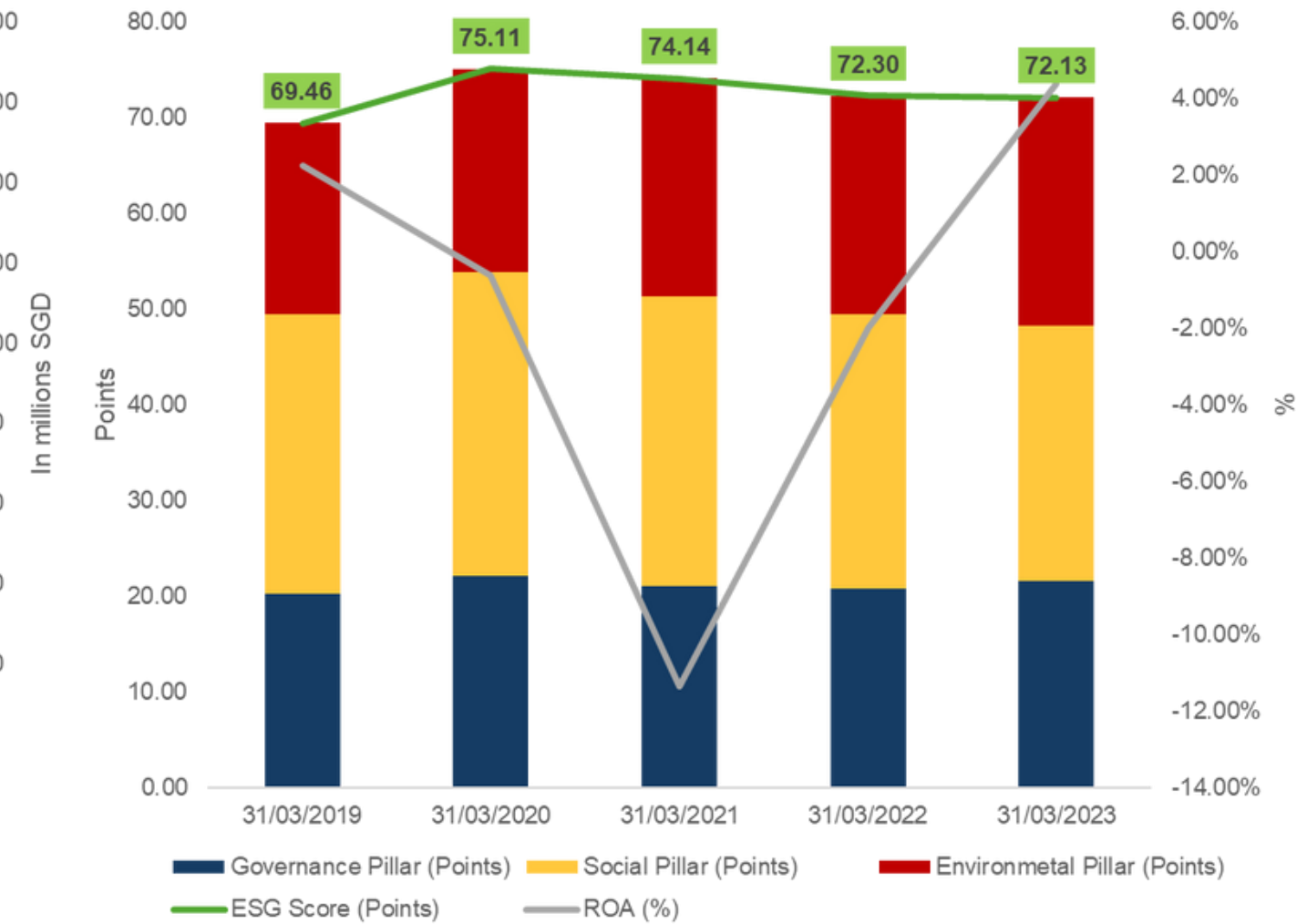
# Singapore Airlines

## Real-World Example

The ESG Score and Firm Value of Singapore Airlines

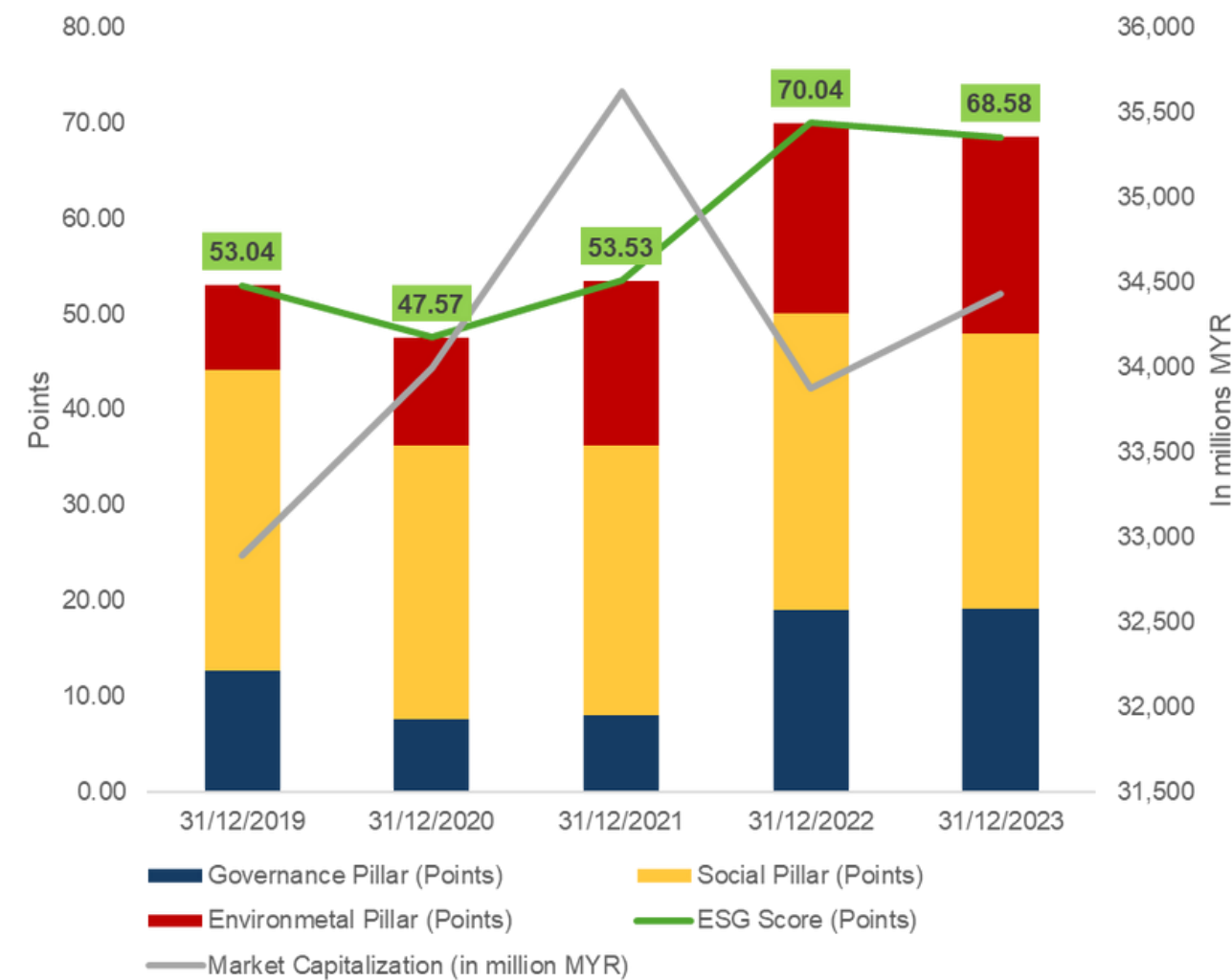


The ESG Score and Profitability of Singapore Airlines

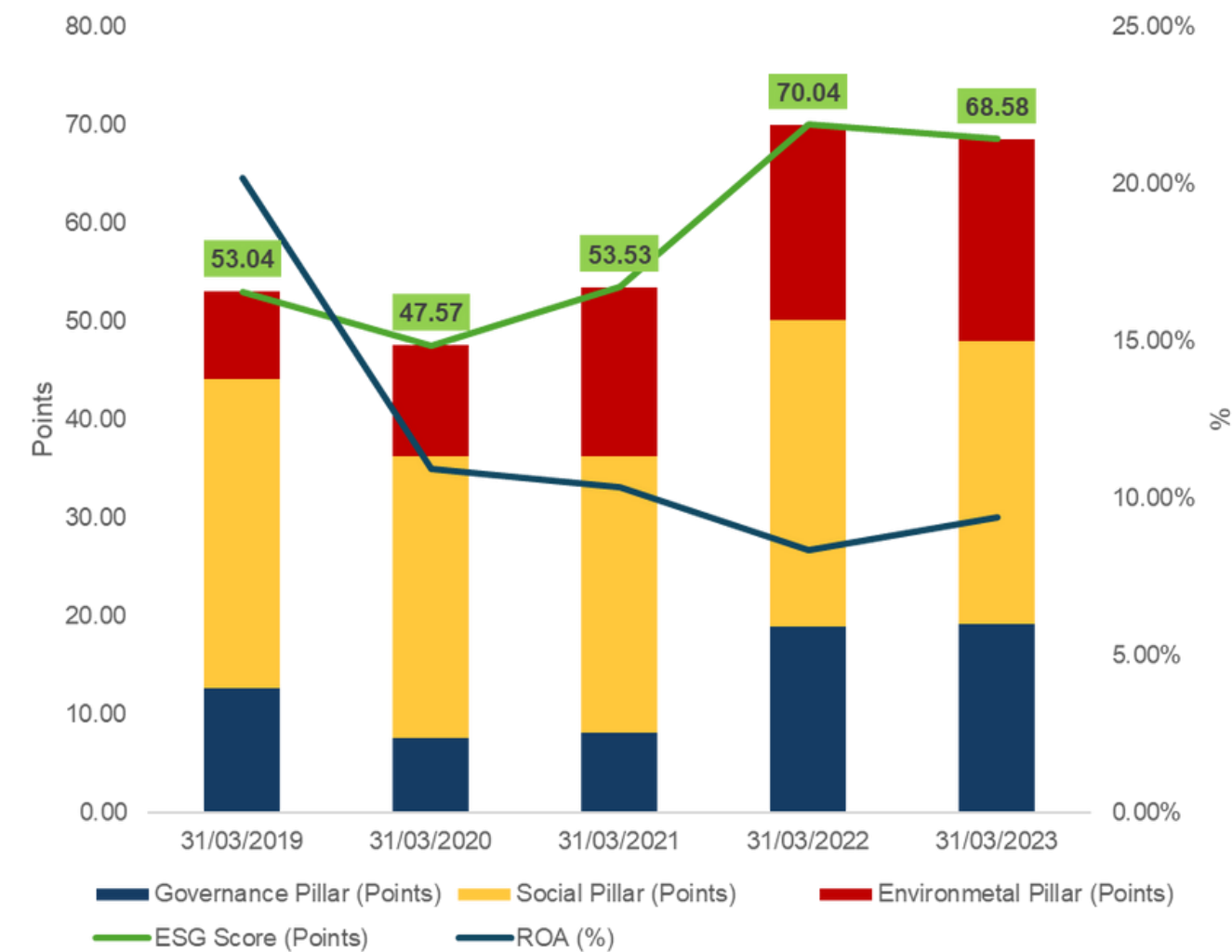


# Petronas

The ESG Score and Firm Value of PETRONAS



The ESG Score and Profitability of PETRONAS





**Time Frame:** The study period may not capture long-term ESG impacts.

**Industry Differences:** Lack of industry-specific analysis may overlook unique ESG effects.

**Control Variables:** Exclusion of factors like market conditions and firm-specific characteristics may influence results.

**Subjectivity:** ESG scores can vary due to subjective ratings, causing inconsistencies.

# Conclusions

- ESG performance is increasingly critical in shaping firm value in Southeast Asia.
- The impact on profitability may not be immediate, the long-term benefits are clear, especially in terms of market perception and resilience.
- As companies and investors alike continue to place more emphasis on sustainability, we anticipate that the link between ESG and financial performance will strengthen over time.

## **Future research:**

- Evaluating ESG Value in Corporate Valuation Models

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**Thank  
You**

**For Your Attention!**

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